

**SKAGIT COUNTY, WASHINGTON**  
**January 1, 1995 Through December 31, 1995**

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**Schedule Of Findings**

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1. The County Should Only Use County Road Funds For Allowable Expenditures

During our review of Skagit County Road Fund, we noted the fund was being charged for a number of inappropriate expenditures. The majority of revenues to the County Road Fund come from the county's general tax levy for the County Road Fund and receipts from the state motor vehicles Fuel Fund.

The specific questionable allocations made to the County Road Fund and the basis for our conclusions are as follows:

- a. Resolution No. 16005, which outlines the 1995 indirect cost allocations, charged \$279,525 to the County Road Fund for expenditures related to the duties performed by the offices of elected officials. These allocations are as follows: \$62,341 for the Commissioner's Office, \$67,867 for the Assessor's Office, \$42,891 for the Treasurer's Office, \$91,279 for the Auditor's Office, and \$15,147 for the Prosecuting Attorney's Office.

It is the duty of these offices to perform their statutorily prescribed functions. The source of payment for the ordinary expenses of county government are payable from the Current Expense Fund unless other legislative provision is made.

- b. Resolutions No. 14908, 15386, and 15732 authorize Skagit County to award \$200,000 in Flood Control Grants to various municipalities in 1993, 1994, and 1995, respectively. The grants are awarded from the Current Expense Fund. However, these grant moneys are funded 50-50 between the Current Expense Fund and the County Road Fund.

RCW 85.08.370 permits the County Road Fund to reimburse diking, drainage, or sewerage improvement districts for improvements which benefit county roads. Based on this criteria we do not question the entire amount of the expenditure. However, in 1993 only \$163,013.37 of the grant moneys were appropriately authorized grant expenditures. Furthermore, in 1994 and 1995 just \$191,216.15 and \$171,451.23 of the grant moneys were appropriate and authorized expenditures. The County Road was never credited for its 50 percent of the \$74,319.25 in unused grant funds, resulting in an overcharge of \$37,159.63 being made to the County Road Fund.

- c. Resolution No. 16005 allocates \$48,496 which represents 25 percent of the Emergency Management Department's total expenditures including services for emergency preparedness, disaster response, hazardous material spill response and incident management. There is no express authority for costs associated with emergency management to be paid by the County Road Fund, nor can such expenditures be implied as authorized.
- d. Resolution No. 16005 allocates \$109,981 which represents 50 percent of the total expenses related to mapping technicians who digitize, plot and electronically store county road and other geographical information. There is one staff person dedicated largely to maintaining road and assessor base maps. Another mapping employee is largely dedicated to planning department's needs. The mapping department allocates more than seven of the department's ten employees to a readdressing program for the county. As no clear benefit to the County Road Fund can be established for the readdressing program, this does not appear to be an allowable expenditure. As such, to allocate 50 percent of the mapping department's total expenses does not appear to be appropriate.

The Washington State Constitution Article II Section 40 specifies the purposes for which Highway Funds can be expended:

. . . Such highway purposes shall be construed to include the following:

(a) The necessary operating, engineering and legal expenses connected with the administration of public highways, county roads and city streets; (b) The construction, reconstruction, maintenance, repair, and betterment of public highways, county roads, bridges and city streets: including the cost and expense of (1) acquisition of right-of-way, (2) installing, maintaining and operation traffic signs and signal lights, (3) policing by the state of public highways, (4) operation of movable span bridges, (5) operation of ferries which are part of any public highway, county road, or city street . . .

Similarly, the *Revised Code of Washington* (RCW) specifies the purposes for which County Road Fund moneys can be expended. RCW 36.82.020 states:

Any funds accruing to and to be deposited in the County Road Fund arising from any levy in any road district shall be expended for proper county road purposes.

RCW 36.82.070 states:

Any money paid to any county from the Motor Vehicle Fund may be used for the construction, alteration, repair, improvement, or maintenance of county roads and bridges thereon and for wharves necessary for ferriage of motor vehicle traffic, and for ferries, and for the acquiring, operating, and maintaining of machinery, equipment, quarries, or pits for the extraction of materials, and for the cost of establishing county roads, acquiring rights of way therefor, and expenses for the operation of the county engineering office, and for any other proper county road purpose.

Skagit County's Notes to the Financial Statements states in Note B, Fund Accounting:

The General Fund is used to account for all activities of the general government not accounted for in some other fund.

RCW 43.09.210 prohibits one fund to benefit at the expense of another by stating:

All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value by the department, public improvement, undertaking, institution, or public service industry receiving the same, and no department, public improvement, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another . . . All unexpended balances of appropriations shall be transferred to the fund from which appropriated, whenever the account with an appropriation is closed.

We are aware of specific instances in which a county is authorized to divert road levy moneys. These methods are referred to in the following statutes.

RCW 36.33.220 states:

The legislative authority of any county may budget, in accordance with the provisions of chapter 36.40 RCW, and expend any portion of the county road property tax revenues for any service to be provided in the unincorporated area of the county, notwithstanding any other provisions of law, including Chapter 36.82 RCW and RCW 84.52.050 and 84.52.043.

RCW 84.52.043 allows a tax shift between the Current Expense and County Road Funds to take place if, after the shift, the Current Expense Fund does not exceed \$2.475 per \$1,000 of assessed value. And the combined Current Expense and County Road Fund levy rates do not exceed \$4.05 per \$1,000 of assessed value. This statute applies to counties which have a Current Expense Fund levy rate in excess of \$1.80 per \$1,000. As Skagit County's levy rate is below \$1.80 per \$1,000, this option is not available to them at this time.

When inappropriate expenditures are made from the County Road Fund, taxpayers do not receive the benefit for which the taxes were originally collected. This diversion of funds results in the financial benefitting of one or more funds at the expense of another. In addition, based on RCW 36.78.090 and 47.08.100, inappropriate County Road Fund expenditures put the county at risk for the potential withholding of future motor vehicle funds. This would place the county in a severe economic disadvantage. These inappropriate expenditures appear to be the result of overall budget constraints and the county's liberal view of appropriate County Road Fund expenditures.

We recommend the county reevaluate all allocations made to the County Road Fund to determine if they are in compliance with the law and adequately supported. We also recommend any County Road Fund allocations which are determined to be unallowable

for fiscal year 1996 be returned. We further recommend in the future, the board of commissioners take precautions to ensure only appropriate expenditures are made from the County Road Fund.

2. Solid Waste Employees Used Public Assets For Private Gain

Our audit of Skagit County Solid Waste Transfer Station revealed that five transfer technicians gained at least \$5,472.13 from public assets during the period January 1995 through October, 1995. There were no federal funds involved in this case. The profit from public assets was made as described below.

Five transfer technicians removed items from the solid waste stream during regularly scheduled work hours, reduced them to obtain the recyclable materials in their off work hours, sold the recyclable materials to commercial vendors and retained the proceeds for their personal gain. These individuals took these actions without the knowledge or approval of upper management officials. There are no specific operating procedures or policies in place at the county that govern the removal or re-use or sale of materials left at the transfer station.

These employees were responsible for various aspects of operations at the transfer station during the period of this loss. When we discussed these irregularities with them on August 26 and September 13, 1996, the employees admitted selling county recyclable materials and splitting the proceeds among themselves.

In our opinion, these activities constitute misappropriation of public funds under the following authorities:

Article XI, Section 14, *Constitution of the State of Washington* prohibits:

The making of profit out of county, city, town, or other public money, or using the same for any purpose not authorized by law, by any officer having the possession or control thereof . . . .

RCW 36.58.060 states in part:

Solid waste disposal - Ownership of solid wastes - Responsibility for handling. Ownership of solid wastes shall be vested in the person or local jurisdiction managing disposal and/or resource recovery facilities upon the arrival of said solid wastes at said facility . . . the person or agency providing the collection service shall be responsible for the proper handling of the solid wastes from the point of collection to the disposal or recovery facility.

RCW 42.23.070 states in part:

Prohibited acts. (Effective January 1, 1995.) (1) No municipal officer may use his or her position to secure special privileges or exemptions for himself, herself, or others . . . .

We recommend Skagit County seek recovery of the misappropriated \$5,472.13 and related audit/investigation costs from the five transfer technicians and their insurance bonding company. We also recommend the Washington State Office of the Attorney General and Skagit County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for county employees is as follows:

Insurer:	Fidelity and Deposit Company of Maryland
Type of Policy:	Public Employee Dishonesty Coverage
Policy No.:	30586915
Dollar Amount:	\$250,000 (with \$1,000 deductible provision)
Policy Period:	August 1, 1994 until canceled

We also recommend Skagit County review overall operations at the Solid Waste Transfer Station, correct the weakness outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.